

MINUTES
ROCKFORD FIREFIGHTERS' PENSION FUND
October 16, 2013

A special meeting of the Board of Trustees of the Rockford Firefighters' Pension Fund was held on Wednesday, October 16, 2013, at 10 a.m. in the second floor conference room of the Fire Department Administrative Building at 204 S. First Street, Rockford, Illinois, pursuant to notice.

CALL TO ORDER

The meeting was called to order at 10:20 a.m. Upon a call of the roll, the following answered:

ATTENDED: Alan Granite, President
Tracy Renfro, Secretary

Jim Strey, Trustee
Michael White, Trustee

ABSENT: Chris Black, City Finance Director

STAFF: Ted Dutkiewicz
Linda Wlaznik, Pension Investment Accountant

Judi Yehling, Recording Secretary

GUESTS: Attorney Carolyn Clifford, Ottosen Britz

Mike Piotrowski & Eric Gaylord of
Marquette Associates

I. PUBLIC COMMENT -- None

II. MINUTES

- The September 18th minutes were presented. Tracy Renfro made a motion to approve the minutes as presented and Michael White seconded the motion. A roll call vote was taken:

Ayes: Alan Granite Jim Strey
Tracy Renfro Michael White
Absent: Chris Black
Nays: None

III. APPROVAL OF APPLICATIONS/PENSION CHANGES

- Elden Raasch passed away on September 17, 2013, and his pension will terminate. Because Mr. Raasch was one of annuitants of the Putnam contract, the Board will receive a death benefit payout of approximately \$54,000 for Elden Raasch who had reached the age of 90 prior to his death according to the terms of the contract. Jim Strey made a motion, seconded by Michael White, to approve termination of the Elden Raasch's pension. A roll call vote was taken:

Ayes: Alan Granite Jim Strey
Tracy Renfro Michael White
Absent: Chris Black
Nays: None

- The firefighters' contract was settled, and according to that settlement agreement, those who retired since January 1, 2012, will be due a lump sum salary payment retroactive to January 1, 2012, and an increased in benefit. Alan Granite made a motion, seconded by Tracy Renfro, to preapprove the adjusted pension payments subject to verification by Finance due to the settlement of the CBA retroactive to January 1, 2012. A roll call vote was taken:

Ayes: Alan Granite Jim Strey

Tracy Renfro Michael White
Absent: Chris Black
Nays: None

IV. DISBURSEMENTS

- Alan Granite made a motion to approve the October payroll of \$1,223,110.34. This included the adjustments to the Thomas and Pauletto benefits; neither individual has been heard from so the decreases as noted are being considered as accepted. Tracy Renfro seconded the motion. A roll call vote was taken:

Ayes: Alan Granite Jim Strey
 Tracy Renfro Michael White
Absent: Chris Black
Nays: None

- Invoices totaling \$39,149.91 were presented as shown in the attached warrant packet. Tracy Renfro made a motion to approve the invoices as presented in the warrant packet. Jim Strey seconded the motion. A roll call vote was taken:

Ayes: Alan Granite Jim Strey
 Tracy Renfro Michael White
Absent: Chris Black
Nays: None

- A motion was made by Tracy Renfro to preapprove AFFI seminar expenses for Alan Granite and Chris Black; motion was seconded by Michael White. A roll call vote was taken:

Ayes: Tracy Renfro Jim Strey
 Michael White
Abstain: Alan Granite
Absent: Chris Black
Nays: None

V. CASH & INVESTMENTS

- Mike Piotrowski presented Marquette Associates' Third Quarter Report for September 30, 2013:
 - Stocks were up YTD and for the month but the potential for volatility certainly exists.
 - Not a lot has changed since last month as far as asset allocation. The Fund is slightly overweight to US equity and underweight to fixed income. The Fund has made over \$13 million in investment earnings for the year.
 - The recommendation will be to take any cash needs from Fiduciary in order to help rebalance the portfolio.
 - Page 11 shows net of fees performance: up in September 2.9%. The Fund is almost at the 7.5% actuarial rate of return. Maintaining the assumed rate of return is challenging but we have been keeping up.
 - Pages 13 and 14 show the performance of the individual fund managers:
 - In fixed income, treasuries have been the place to be. Hillswick and Segall have both provided good returns but it is a challenging environment.

- Montag & Caldwell and Fiduciary, who holds 20% in cash, have underperformed in a very challenging environment but they should be able to protect principal on the down side.
- International stocks have been improving and Manning & Napier is up 14% YTD and emerging markets were up 4% in October.
- PIMCO is up 2.9% and Principal is up 2.4%.
- According to Mike Piotrowski, treasuries are the place to be in fixed income and “it is prudent to be defensive oriented.” But active management has not helped this year despite good managers. The Fund has “a good stable of managers;” however, Montag & Caldwell should be “on a short leash,” although we’ll keep them until the end of the year.
- Discussed indexing versus active management with regard to large cap growth stocks. Mike Piotrowski commented that NWQ was dropped because of underperformance, and Montag and Caldwell is going that way but in general most of these active managers do better in a down market. He added that if we drop Montag & Caldwell he may recommend not replacing them in the growth space as in general it is hard to beat the benchmark in the large cap growth space. He recommends “staying the course” until the end of the year.
- Since the Fund is overweight to U.S. equity and Fiduciary has a large cash position, Mike Piotrowski recommends taking any cash need from Fiduciary.
- Cash needs for the month are \$750,000 and the recommendation is to take it from Fiduciary. Michael White made a motion, seconded by Tracy Renfro, to take \$750,000 from Fiduciary to meet cash needs for the month. A roll call vote was taken:

Ayes: Alan Granite Jim Strey
 Tracy Renfro Michael White
Absent: Chris Black
Nays: None

- Ted Dutkiewicz passed out the report on the status of the Fund as of September 30, 2013:
 - The report showed total current market value of the Fund was \$147.84 million, up 5.857% year to date. The equity fund is up 25.174%, and fixed income is down 17.695% at 35.036% of the total Fund.
 - Total annual return is at 12.38%; equity annual return is 32.52%, a fixed income annual return of -14.30%, and a total income return of 2.95%.
- Records of purchases and sales were distributed.

Alan Granite made a motion, seconded by Tracy Renfro, to approve the purchases and sales for the month. A roll call vote was taken:

Ayes: Alan Granite Jim Strey
 Tracy Renfro Michael White
Absent: Chris Black
Nays: None

VI. OLD BUSINESS

- Linda Wlaznik has heard nothing yet on the response to the DOI audit report.
- Actuarial Report was discussed with Tim Sharpe via teleconference, and Sharpe went over the report:

- It was a good year for the Fund with an 8.5% investment return so we earned more than we assumed and salary increases were less than we assumed.
- The mortality table was changed which had some impact on the Fund's actuarial study – basically driving everything up about 10% which caused the levy to go up to \$6.6 million and percent funded to go down to 5%. Also affecting those numbers is the five-year smoothing which we must now use by statute. (Page 4.)
- Last year the investment return was just over 3% so we've still got those losses to make up. Even though we beat the assumption this year, we have to make up for the losses deferred from the prior year. So the City's levy goes up 15% this year or to \$6.6 million but the percent funded drops 2%.
- (Page 7) At the beginning of 2012 we were at \$140 million in the Fund and at the end we were at \$144 million, or up \$4 million. This provides about 10 years' worth of cushion.
- Contributions to the Fund were just under \$7 million, and expenses were \$14 million so we have to make up \$7 million to make up the deficit; the first 5% goes to keeping it even.
- Discussed the 90% funding goal versus the 100% goal: currently the Fund is 65% funded so we have to make up 20% in 28 years.
- Liabilities are equal to \$200 million and the bar has been lowered using the 90% which is still an excellent level per Sharpe.
- Is the 5% smoothing offset by gains and losses and is it adjusted every year? (Page 6) The smoothing has been done for two years by now – we began in 2011 as required by statute. A year ago the Fund earned just under 3% resulting in a loss of almost \$7.5 million. Last year we made 8% so we “beat the mark” and have a gain of \$1.5 million. This gives us more deferred losses than gains but they don't stay forever but get phased in over five years.
- Discussed the effects of Projected Unit Credit or PUC versus Entry Age Normal. This year PUC meant a higher contribution than Entry Age Normal – why was/is that? PUC is a back loaded approach while Entry Age Normal keeps the costs uniform. If there is a very senior workforce, the cost for them exceeds the entry age. The ultimate cost is the same; it's how the costs are assigned and it shows up in the liability. The firefighters' fund has 1/4th of its members with over 20 years of service; this would probably have to be reduced to 1/5th or 1/6th of the workforce before Entry Age Normal would provide a higher contribution. If you use Entry Age Normal you obtain more uniform funding.
- Page 12 of the report gives the demographics. Those with 15 years plus service contribute a lot to the Fund – there are 46 people contributing double the cost. A lot of this is due to the unusual formula used by the firefighters. The 8.2 duration represents the midpoint of the retirees' life expectancy dollar weighted by the amount of their pension.
- Pages 16-18 show the GASB disclosures.
- As far as using the 2003 new mortality table, there is no choice; it is a mandate. It affects almost every fund and “it's not a bad thing” according to Tim Sharpe.
- Looking at the investment return of 7.5% as our assumption. Right now the five-year average for the firefighters' fund is about 4.5% as the Fund lost 8.5% in 2008. However next year that will drop off and the five-year average will probably jump to 7.5%. According to Sharpe that indicates some stability. The question is 7.5% a reasonable assumption. Mike Piotrowski cited the 7.4% return as of September 2013 and said that to rate of return really comes down to

bond yields given the limits placed on state funds ability to invest in alternate vehicles. He believes that 7.5% is realistic, although a challenge and could be tough over the next three to four years.

- Tim Sharpe said we're at a good place to start next year and we should put the mortality table issue "to bed" – it is built in going forward.
- Attorney Clifford asked when the Board has to make its recommendation for the 2014 levy. From Tim Sharpe we have a calculation that would indicate a goal of \$7.7 million using Entry Age Normal and a 100% goal.
- The discussion with Tim Sharpe closed at 11:30 a.m.
- The Board briefly discussed further the likelihood of making the same return on investment next year as this year. The fixed income return of 1.7% will likely continue and bonds will be a drag on the portfolio. Mike Piotrowski feels that the best bet is investment in international stocks which are undervalued. We'll probably experience negative returns from bonds next year but we're hampered by the mandate of 35% in fixed income. Piotrowski feel the 7.5% return on investment is realistic over a 10-15 year period but not in the short term. There is room to grow in equity and mortgages and corporate bonds have given additional yields.
- Attorney Clifford passed out a copy of the revised Policies and Forms with the changes tracked. Suggestions and additions were highlighted and reviewed:
 - Page 6 – Rules of Order – staff can now speak to Board
 - Page 9 – Reimbursement of Expenses
 - Page 11 – 1.17 – removed several forms
 - Page 13 – removed own FOIA forms and all requests will go through the City program
 - Page 19 – Chapter 2.01.C clarification re transfer of creditable service from IMRF to an Article 4 fund. Transfer was allowed beginning in 2004 and the window is now closed
 - Chapter 3 – forms were renumbered including all forms in QILDRO being modified and renumbered.
 - Page 36 – investment policy changes – 4.02. Will eliminate the investment committee and the Board will be responsible for updating the investment policy.
 - List of Forms: Shows those removed and the new forms that were added including application for line of duty death which was separated from "standard" death.

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A motion was made by Tracy Renfro, seconded by Michael White, to approve the Rules and Forms as presented. A roll call vote was taken:

Ayes:	Alan Granite	Jim Strey
	Tracy Renfro	Michael White
Absent:	Chris Black	
Nays:	None	

Attorney Clifford advised she will "clean up" the Rules and Forms and provide to Linda Wlaznik for posting. Attorney Clifford left at 11:35 a.m.

- Ted Dutkiewicz sent Elden Raasch's death certificate to Hartford for payment of the death benefit.
- Linda Wlaznik indicated that all the affidavits are in except for Frieda Washington-Lockridge whom she will contact and notify that the check will be held for pickup when the affidavit is turned in.

- Discussed the taxable portion of a disability pension once again. Last Linda Wlaznik heard the 65% is not taxable and the increases on that 65% after they turn 60 are also non-taxable. For those that went over because of their service time, the overage is taxable and the proportionate amount of the increases is taxable. It's been brought before the Coalition for Qualified Plan Status previously, and they chose not to act on it. So for now they recommend going with the partially taxable for those going above 65%. A motion was made by Jim Strey and seconded by Alan Granite that the taxability of a line of duty disability benefit where the benefit exceeds 65% that portion is taxable along with a proportionate amount of their increases when they qualify. A roll call vote was taken:

Ayes: Alan Granite Jim Strey
 Tracy Renfro Michael White
Absent: Chris Black
Nays: None

- Discussion of the fiduciary liability policy was tabled until next month's meeting.
- Meeting dates and times were discussed. The November meeting will be the third Wednesday of the month at 10:15 a.m. December meeting will be the 18th with time to be determined. Meetings for 2014, starting January 1st, will be the third Thursday of the month at 3:00 p.m.
- Discussed the overpayment issue that arose for Pauletto and Thomas both of whom were sent letters concerning the repayment of the overpayments and reduction in pension benefits. No response was received from either. Alan Granite made a motion, seconded by Jim Strey, to go forward with the repayment plans and reduction in pension benefits for Pauletto and Thomas as stated previously accepting their silence as agreement to the case as stated in the letters. A roll call vote was taken:

Ayes: Alan Granite Jim Strey
 Tracy Renfro Michael White
Absent: Chris Black
Nays: None

VII. CLOSED MEETING – None required.

VIII. NEW BUSINESS

- Ted Dutkiewicz presented the annual compliance report prepared for City Council from documentation found on the Actuarial Report. Board signatures were obtained and it will be copied and distributed.
- The tax levy recommendation will carry over to the next meeting. The "drop dead" date is November.

IX. Training

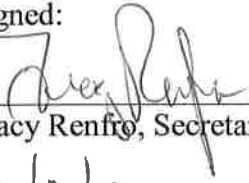
- IPFA 2013 Fall Pension Seminar is an eight-hour session. Details were attached to the Agenda.
- Don't have any details on the NIAFPD 2014 Conference. Need to check with Attorney Clifford for further details.
- Handouts from Attorney Clifford were distributed to the Board.

X. ADJOURNMENT

A motion was made to adjourn the meeting. Motion carried and meeting was adjourned at 11:45 a.m.

Next regular meeting is November 20, 2013, at 10:15 a.m.

Signed:



Tracy Renfro, Secretary

11/20/13

Date

Prepared by:

Judith Yehling, Recording Secretary

Date

Approved by the Board of Trustees at its November 20, 2013, meeting.

